

# VERMONT STATE TEACHERS' RETIREMENT SYSTEM

Meeting of the Board of Trustees

May 19, 2004

## **Board Members present:**

JOSEPH MACKEY, Chairperson (Active No. 29334), term expiring July 1, 2005

JON HARRIS, Vice-Chairperson (Active No. 25669), term expiring July 1, 2007

JAY KAPLAN, Association of Retired Teachers of Vermont, term expiring July 1, 2008

THOMAS CANDON, representing Commissioner of BISHCA

VAUGHN ALTEMUS, representing Commissioner of Education

JEB SPAULDING, VT State Treasurer – **arrived later in the meeting**

ELIZABETH PEARCE, Deputy VT State Treasurer representing JEB SPAULDING in his absence.

## **Also attending:**

Cynthia Webster, Director of Retirement Operations

David Minot, Director of Investment Services

Dick Charlton, Ellen Griggs, Kevin Kondry, NEPC

June Atwood, Bill Adams, Association of Retired Teachers of Vermont

Alden Walcott, Rita Rinehart, Association of Retired Teachers of Vermont

Angelo Dorta, Jeff Fannon, Esq., VT-NEA

Michael Clausen, Deputy Director Retirement Operations

Investment Manager personnel

The Chairperson, Joe Mackey, called the meeting to order at 8:05 a.m. on Wednesday, May 19, 2004, in the VT Arts Council Conference Room at 136 State Street, Montpelier, Vermont.

*Mr. Spaulding arrived during the next item.*

## **ITEM 1: Investment Consultant Report for Q1/04**

Mr. Charlton, Ms. Griggs and Mr. Kondry reviewed the first quarter 2004 performance. They reported the market value of the fund balance at approximately \$1.243 billion and a quarterly return of 2.8%, an under performance of the 2.9% median public fund. The one-year return was 28.9% vs. the median public fund at 26.9%, three-year return 6.3% vs. the median public fund at 5.5% and a five-year return of 5.2% vs. 4.8%.

Mr. Charlton agreed the reporting of the gross and net returns were incorrectly reported and will have the error corrected.

The Board discussed and agreed that some members would like to participate in an NEPC joint education presentation (for the three systems) regarding alternative investments.

*Mr. Spaulding left the meeting.*

## **ITEM 2: Investment manager Presentations**

**Morgan Stanley Prime Property (formerly Lend Lease) – Real Estate:** Joe Thomas, Portfolio Manager and Mike Cassidy, Executive Director, appeared before the Board. Morgan Stanley Prime Property Fund reported a total of \$433 billion under management in a real estate portfolio, of which the VSTRS quarterly balance was approximately \$34.4 million of the fund. The return for the quarter ending March 31, 2004, was reported at 3.4% vs. 2.0% for the NCREIF Property Index;

1-year performance was 12.3% vs. 7.9%; three-year performance was 6.8% vs. 6.4% and five-year performance was 9.3% vs. 8.7%

The Board discussed the company's recent conversion to Morgan Stanley Prime Property, immediacy for a personnel retention plan by the new management, and company client base.

Mr. Thomas advised the Board that Morgan Stanley is in a position to accept increases to the fund allocation, at any time.

*Mr. Spaulding returned to the meeting.*

**Delaware Investment Advisors – Domestic Large Cap Equity Value:** Ged Deming, Senior VP and Sr. Portfolio Manager and Dave Prince, Senior VP of Client Services appeared before the Board. As of March 31, 2004 the portfolio market value was approximately \$152.3 million with a first quarter 2004 return of 1.8% compared to the Russell 1000 Value index of 3.0%; 1-year performance was 39.6% vs. 40.8%; three-year performance was 4.3% vs. 4.3% and five-year performance was 4.3% vs. 3.9%.

Mr. Prince advised the Board of the pending separation of the International Equity team who have chosen to buy their way out of the Lincoln International parent company; however will remain managers of the Global mandate, with no change in fees, through assignment of the portfolio contracts by the new parent organization. Mr. Prince also advised the Board of Delaware's recruitment of an entire four-person Large Cap Value portfolio management team from Merrill Lynch, approximately two months ago. The new team possesses a separate and distinct (deeper value, slightly riskier) style and offers another investment component to the firm.

**Delaware Investment Advisors – International Equity:** Patty Karoli, Senior VP of Client Services, and Liz Desmond, Director and Senior Portfolio Manager appeared before the Board. As of March 31, 2004 the portfolio market value was approximately \$104.5 million with a first quarter 2004 return of 2.4% compared to the SSgA Daily EAFE index of 4.3%; 1-year performance was 57.5% vs. 57.9% for the CITI EPAC index; three-year performance was 10.1% vs. 3.9% and five-year performance was 7.4% vs. 1.1% for the CITI EPAC index.

Ms. Desmond further discussed the management buyout of the London-based International Equity investment management unit to Atlantic Value Partners Ltd, a newly formed company associated with certain members of Hellman & Friedman LLC, a US private equity firm.

### **ITEM 3:      Approval of the Minutes of March 15, 2004**

**On a motion by Mr. Kaplan seconded by Mr. Altemus, the Board unanimously voted to approve the minutes of March 15, 2004, with the following amendments:**

**ITEM 3 A: The unitization bill has passed the ~~House~~ Senate.**

**ITEM 3 C: The Governor has agreed to ...**

**ITEM 7: ...ROTC trainers be licensed by the Vermont State Board of Education *and in a position where a license is required in order...***

**ITEM 9 B: ... the retired member to continue to received his/her ...**

**ITEM 4:**      **Act on Disability retirement for: *Lora L. Chesney and Rita J. Gauthier***  
**Ratify the Disability Retirement for: *Patricia Chamberlin***

**On a motion by Mr. Kaplan seconded by Mr. Candon, the Board unanimously voted to approve the disability retirement for Lora L. Chesney and Rita J. Gauthier, as recommended by the Medical Review Board.**

**On a motion by Mr. Kaplan seconded by Mr. Candon, the Board unanimously voted to ratify the ballot approval for a disability retirement for Patricia Chamberlin, as recommended by the Medical Review Board.**

The Board asked for direction from the Attorney General's Office on whether authority could be delegated to the Retirement Office to process disability retirements upon recommendation of the Medical Review Board, in lieu of VSTRS Board action.

**ITEM 1 (CONTINUED):**    **Investment Consultant Report for Q1/04**

The Board assumed its review of the manager's performance and other quarterly performance data.

▪    **Review Investment Policy Guidelines as updated by NEPC**

NEPC will distribute the Policy Guidelines to the system's managers and they are also available on the Treasurer's web site.

**ITEM 5:**      **Treasurer's Report**

A.      Unitization Update

The Treasurer advised the Board the unitization bill is unlikely to pass this year, however, it is possible that the individual retirement systems, with Board approval, could unitize assets on their own and without legislation. Mr. Spaulding is awaiting an opinion confirming that option from the Attorney General's Office.

**ITEM 6:**      **Director of Finance & Investments Report**

A.      Real Estate Allocation Update

Mr. Minot advised the Board that funds payable by SSR Tower Fund as a result of their termination are expected by July 1. However, because of the nature of the asset class and system's current managers, UBS would not be able to accept the additional \$9 million allocation to their portfolio for several quarters, perhaps as late as March 2005.

**On a motion by Mr. Kaplan seconded by Mr. Harris, the Board unanimously voted to put all of the \$23 million incoming real estate funds into the Morgan Stanley Prime Property fund, with the proviso they convert to a private REIT.**

*Mr. Spaulding left the meeting.*

*Ms. Pearce arrived at the meeting.*

**ITEM 5 (CONTINUED):    Treasurer's Report**

**B.       Retirement Office Consultant Recommendations**

Ms. Pearce distributed and reviewed the results of the Maximus report and Executive Summary and introduced Michael Clasen, Deputy Director of Retirement Operations.

The recommendation is to restructure the Retirement Office into three groups of services; employer services, member services and accounting. The majority of the employees would perform duties in the member services area, with two employees dedicated to the employer services and two employees dedicated to the accounting sections. Extensive cross training of job functions will improve customer service.

The Board was also advised of movement to an automated telephone system and plans for improvements in the technology area that will be implemented including imaging, employer reporting, and a new computer system.

Mr. Kaplan asked for the status of the Special Edition newsletter regarding the health insurance open enrollment in July and August. Ms. Webster advised that the newsletter would be out as soon as possible.

The Board requested Ms. Webster follow-up with VEHI or other providers for a dental coverage plan for retirees, and report back to the Board at the June 14<sup>th</sup>, meeting.

**ITEM 7:       Director of Retirement Operations Report**

**A.       Retirement Legislative Update**

Ms. Webster reported that a list of housekeeping items for the three retirement systems was originally drafted into a House Government Operations committee bill. The items are now included in bill S-206, which contains an amendment to the definition of teacher, a mandate for a 5-year membership to qualify for a retirement benefit, and a mandate that members must have a minimum 10 years of creditable service at retirement to receive the 80% health insurance premium benefit from the system. She explained that because of several controversial issues and input by lobbyists and union representatives, the 180-day separation of service item was removed from the original bill.

Further reported was the commitment by the Retirement Office and other interested parties to study the three retirement systems over the next few months and draft a unified presentation for amendments to next year's legislature.

B. Resolution of Sub-Contractor Issue

Ms. Webster advised the Board that as a result of the SS-8 independent contractor requirements, one respondent was determined to be a qualified independent contractor according to the IRS and one Superintendent and one Principal would be returning to the VSTRS as members effective July 1<sup>st</sup>.

**ITEM 8: Any Other Business to be Brought Before the Board**

Jeff Fannon, legal counsel for VT-NEA appeared before the Board requesting information and the status of the March 15, 2004 Board action regarding calculations for Ms. Brown.

Ms. Webster advised that as a result of daily work requirements and responsibility to be available for legislative activity, she had not completed the assignment, but will address the calculation for Ms. Brown as soon as possible, probably within a week.

Mr. Altemus asked if the Governor's letter explaining his budget allocations and under funding of the VSTRS had been received. Ms. Pearce will follow-up.

Mr. Kaplan and Mr. Mackey requested permission to attend the NCTR meeting October 10, 2004 in Portland, Oregon. Mr. Altemus may also request permission to attend at the meeting in June.

Information regarding the Conference and costs will be presented to the Board in June for action.

**Next Meeting Dates:**

The next scheduled business meeting is June 14, 2004.

The next scheduled quarterly investment meeting is August 18, 2004.

**On a motion by Mr. Harris seconded by Mr. Kaplan, the Board unanimously voted to adjourn at 3:50 p.m.**

Respectfully submitted,

Cynthia L. Webster  
Secretary to the Board

**GOALS:**      **The Board established the following list of goals to be addressed in the future:**

Support full appropriation  
Increased staff for counseling & continued training

**BOARD FOLLOW-UP ITEMS**

<b><u>Who</u></b>	<b><u>What</u></b>	<b><u>When</u></b>	<b><u>Done</u></b>
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**\*\* = for possible legislative changes**

All	discussion of Proxy Voting Guidelines (3/15 #1)	TBD	
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